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Hong Kong – Canada Agreement Opens the Door to Canadian Bone-In Beef

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Report Highlights: The Hong Kong and Canadian governments have reached an agreement under which nearly all Canadian beef products could gain access to the Hong Kong market by the end of 2009. The clearly defined three-phased opening will likely provide a significant competitive advantage over U.S. beef, which remains restricted to boneless cuts from animals under thirty months (UTM) old. The agreement was reached despite Canada having more numerous and more recent cases of BSE than the U.S. Canada's beef industry estimates the agreement will result in up to US\$ 26 million in additional sales to Hong Kong, roughly doubling current exports, and surpassing projected U.S. sales for 2009. Industry sources report Canada is planning a surge in marketing funding to promote these new products. Though the agreement with Canada is similar in most respects to what Hong Kong authorities have offered the U.S. since August of 2007, it includes the key provision of specified time frames for each phase. The Hong Kong government's lack of technical justification for a phased opening combined with its refusal to commit to time limits for each phase has been a major stumbling block to U.S.-Hong Kong progress on this issue.

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Includes Trade Matrix: No
Trade Report
Hong Kong [HK1]
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Summary

The Hong Kong and Canadian governments have reached an agreement under which nearly all Canadian beef products could gain access to the Hong Kong market by the end of 2009. The clearly defined three-phased opening will likely provide a significant competitive advantage over U.S. beef, which remains restricted to boneless cuts from animals under thirty months (UTM) old. The agreement was reached despite Canada having more numerous and more recent cases of BSE than the U.S. Canada's beef industry estimates the agreement will result in up to US\$ 26 million in additional sales to Hong Kong. This amount would come close to doubling Canada's 2008 exports to this market, and would allow Canada to significantly surpass projected U.S. sales for 2009. Industry sources report Canada is planning a surge in marketing funding to promote these new products. While Canada publicly announced the agreement on January 16, the Hong Kong government (HKG) is reportedly waiting for final details on processing plant certification to be ironed out.

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The Agreement between the Hong Kong and Canadian Governments

The Hong Kong and Canadian governments have reached an agreement under which nearly all Canadian beef products from certified facilities could gain access to the Hong Kong market by the end of 2009. The agreement was reached despite Canada having more numerous and more recent cases of BSE than the U.S.

The agreement calls for cumulative access to be granted in three distinct phases of defined duration. Phase I will expand access from the current "boneless UTM" to allow entry of all bone-in beef from cattle UTM, except vertebral column cuts (i.e. T-bones). Phase II is to be implemented two-to-four months later, and will eliminate age restrictions on ribs and boneless beef. Phase II will also grant access to offals from cattle of any age. Following a three-to-six month period of smooth imports of Phase II products, the Phase III addition of T-bones from animals UTM will be added. Note: Though not specifically addressed in the agreement, a HKG official told us that Phase II would eliminate the age restrictions for all cuts covered by Phase I.

The new access for Canadian bone-in cuts will provide a key advantage over U.S. beef, which remains restricted to boneless cuts from animals under thirty months (UTM) old. Hong Kong was a major market for U.S. bone-in beef prior to the BSE (Mad Cow) cases in December 2003. Canada's beef industry estimates the agreement will bring up to US\$ 26 million in additional sales to Hong Kong. Industry sources report Canada is planning to aggressively promote its bone-in cuts with a surge in marketing funding.

Prior to the BSE case in the U.S., Canadian beef sales to Hong Kong were insignificant. However, sales grew quickly from November 2004 when the Canadian government agreed to Hong Kong's conditions for importing boneless beef from cattle under 30 months of age. While U.S. exports recovered rapidly after the U.S. and Hong Kong reached a similar agreement in December 2005, Canadian sales have remained relatively strong (See tables). The U.S. and Canada traditionally compete for the same product categories.

Under the new agreement, Canadian beef processing facilities must continue to meet the specified and rigorous guidelines that currently govern boneless beef exports. There are

currently 26 Canadian facilities certified to export boneless beef versus 38 in the U.S. Informed sources report Hong Kong's announcement of the agreement is pending final clarification on how Canadian facilities will be certified to include the broader range of products in each phase. Canada's understanding is that any plant approved for boneless product is automatically approved for all other products covered by the agreement. The HKG has reportedly neither contradicted nor confirmed this view. Despite this minor wrinkle, sources say Hong Kong's announcement is imminent.

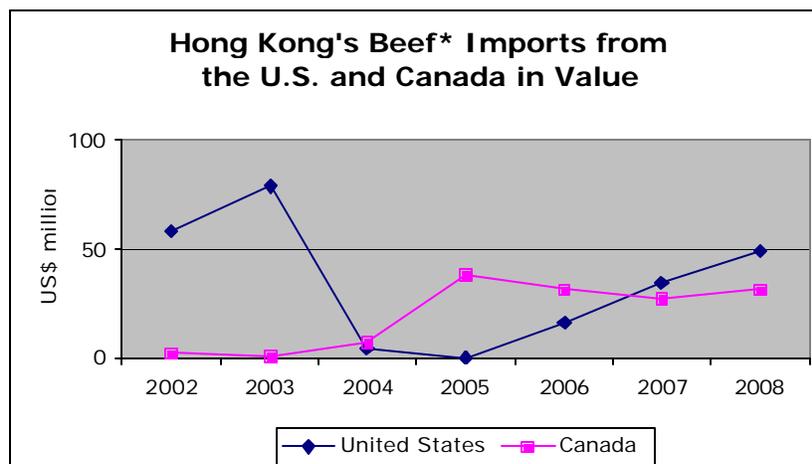
Hong Kong authorities last went to Canada in the fall of 2007 for representative plant audits in preparation for a planned opening to Canadian bone-in beef by year's end. The expected announcement was then aborted due to the lack of consensus on the products covered in Phase I of that agreement.

Though the agreement with Canada is similar in most respects to what Hong Kong authorities have offered the U.S. since August of 2007, it includes the key provision of specified time frames for each phase. The HKG's lack of technical justification for a phased access for U.S. beef cuts combined with its refusal to commit to time limits for each phase has been a major stumbling block to U.S.-Hong Kong progress on this issue.

Trade Statistics

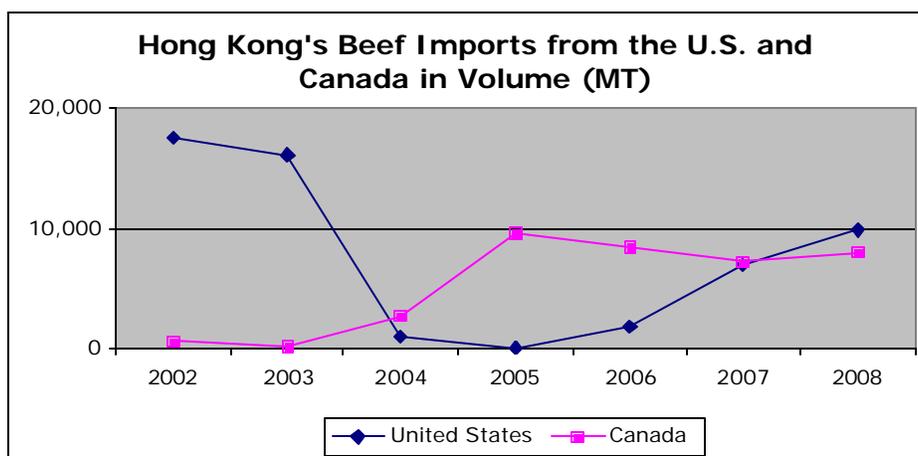
Hong Kong's Beef* Imports in Value, US\$ Millions

Country	2002	2003	2004	2005	2006	2007	2008 Estimates
-	136	163	133	150	177	226	343
World	136	163	133	150	177	226	343
Brazil	24	32	49	47	63	83	152
China	12	12	17	16	18	26	34
United States	58	79	4	0	16	35	49
Canada	2	1	7	38	31	27	31
Argentina	5	8	12	9	6	6	11
New Zealand	16	17	17	13	15	17	23
Australia	13	11	22	23	24	28	27



Hong Kong's Beef* Imports in Volume, Metric Tons

Country	2002	2003	2004	2005	2006	2007	2008 Estimates
World	53,493	54,905	50,670	51,781	56,256	68,082	87,386
Brazil	13,882	18,521	24,689	22,661	26,586	32,740	43,282
China	7,978	7,821	9,847	9,258	9,979	12,449	10,829
U.S.	17,476	16,011	886	43	1,741	6,890	9,798
Canada	552	111	2,591	9,473	8,345	7,126	7,925
Argentina	2,750	5,003	6,159	4,969	2,778	2,831	4,298
New Zealand	4,240	3,712	2,800	2,138	2,318	2,531	4,291
Australia	3,355	2,074	2,470	2,487	3,119	2,851	3,188



Source : World Trade Atlas, *fresh, chilled, and frozen beef; excludes processed beef products and beef offals